

CITY OF GLADBROOK

Independent Auditors' Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings

June 30, 2007

CITY OF GLADBROOK

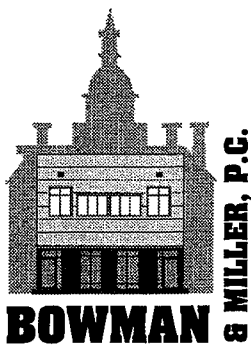
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CITY OF GLADBROOK

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tim Hendricks	Mayor	Jan 2010
Mike Wentzien	Mayor Pro Tem	Jan 2008
Geri Eilers	Council Member	Jan 2008
Roger Luehring	Council Member	Jan 2010
Sam Goos	Council Member	Jan 2010
Patrick White	Council Member	Jan 2010
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6366
4949 PLEASANT STREET • SUITE 206 • WEST DES MOINES, IOWA 50266 • 515-309-5461 • FAX 515-278-0287

James R. Bowman, CPA • jim@syscompia.com
Elizabeth A. Miller, CPA • beth@syscompia.com
Suzanne M. Mead, CPA • suzanne@syscompia.com

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Gladbrook's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2007 on our consideration of the City of Gladbrook's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladbrook's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied on our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 10, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gladbrook provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 12.4%, or approximately \$57,200 from fiscal 2006 to fiscal 2007. Property taxes increased approximately \$22,000 and operating grants increased approximately \$18,000.
- Disbursements increased 21.46%, or approximately \$82,600 in fiscal 2007 from fiscal 2006 in the governmental activities. Public safety, public works, and community and economic development increased approximately \$56,000, \$11,000, and \$11,000, respectively.
- The City's total cash basis net assets increased 13.4%, or approximately \$101,000 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$34,000 and the assets of the business type activities increased by approximately \$67,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and the City Center movie theater and Matchstick Marvels museum. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1.) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1.) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2.) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water and sewer funds, and for the operation of the City's movie theater and Matchstick Marvels museum. These funds are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$553,918 to \$587,809. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 42,159	40,187
Operating grants, contributions and restricted interest	145,180	126,517
Capital grants, contributions and restricted interest	1,620	-
General receipts:		
Property tax	243,648	221,260
Local option sales tax	58,034	49,737
Grants and contributions not restricted to specific purposes	4,255	4,080
Unrestricted investment earnings	13,873	9,948
Other general receipts	<u>7,536</u>	<u>7,358</u>
Total receipts	<u>516,305</u>	<u>459,087</u>
Disbursements:		
Public safety	165,539	109,181
Public works	108,031	97,212
Culture and recreation	46,052	41,642
Community and economic development	25,718	14,379
General government	51,588	51,783
Debt service	<u>70,819</u>	<u>70,909</u>
Total disbursements	<u>467,747</u>	<u>385,106</u>
Change in cash basis net assets before transfers	48,558	73,981
Transfers, net	<u>(14,667)</u>	<u>-</u>
Change in cash basis net assets	33,891	73,981
Cash basis net assets beginning of year	<u>553,918</u>	<u>479,937</u>
Cash basis net assets end of year	\$ <u>587,809</u>	<u>553,918</u>

The City's total receipts for governmental activities increased by 12.4% or approximately \$57,200. The total cost of all programs and services increased by approximately \$82,600, or 21.46%, with no new programs added.

The City increased the employee benefit and debt service levies for 2007 generating additional taxes. The City's assessed valuation increased by \$2,157,783 from 2006 to 2007. The City also received \$13,737 in a Federal Emergency Management grant to help cover the cost of an ice storm. This amount is reflected in operating grants.

The cost of all governmental activities this year was approximately \$468,000 compared to approximately \$385,000 last year. However, as shown on the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$278,788 because some of the cost was paid by those directly benefited from the programs (\$42,159) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$145,180). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2007 from approximately \$167,000 to approximately \$189,000. The City paid the remaining "public benefit" portion of governmental activities with \$301,682 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 98,336	77,324
Sewer	96,020	78,154
Concessions and admissions	129,689	131,884
Operating grants, contributions and restricted interest	2,563	1,627
General receipts:		
Unrestricted interest on investments	<u>727</u>	<u>759</u>
Total receipts	<u>327,335</u>	<u>289,748</u>
Disbursements::		
Water	78,314	83,764
Sewer	67,321	68,075
City center	<u>128,922</u>	<u>133,720</u>
Total disbursements	<u>274,557</u>	<u>285,559</u>
Change in cash basis net assets before transfers	52,778	4,189
Transfers in	<u>14,667</u>	<u>-</u>
Increase in cash balance	67,445	4,189
Cash basis net assets beginning of year	<u>204,503</u>	<u>200,314</u>
Cash basis net assets end of year	\$ <u>271,948</u>	<u>204,503</u>

Total business type activities receipts for the fiscal year were \$327,335 compared to \$289,748 last year. This increase was due primarily to an increase in water and sewer rates effective July 1, 2006. Total disbursements for the fiscal year decreased by 3.9% to a total of \$274,557.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gladbrook completed the year, its governmental funds reported a combined fund balance of \$587,809, an increase of \$33,891 from last year's total of \$553,918. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$41,949 from the prior year to \$485,548. Approximately \$24,000 of this increase was due to property tax valuations increasing in 2007.
- The Road Use Tax Fund cash balance decreased by \$8,867 to \$64,140 during the fiscal year.

- The Debt Service Fund cash balance remained approximately the same from 2006. This fund is used to pay off general obligation bonds and notes. In 2007, the City transferred funds from the Local Option Sales Tax Fund and the Tax Increment Financing Fund to pay a portion of the debt.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$20,572 to \$150,270, primarily due to an increase in the water rates charged to customers.
- The Sewer Fund cash balance increased by \$28,876 to \$112,330, primarily due to an increase in the sewer rates charged to customers.
- The City Center cash balance increased by \$17,997 due primarily to a transfer of \$14,667 from the General Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended their budget once. The amendment was approved on May 14, 2007 and resulted in an increase in operating disbursements of \$90,008, related to public improvements and the purchase of new equipment. The City received special assessments and had sufficient cash balances to absorb the remainder of the costs.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$729,806 in bonds and other long-term debt, compared to \$801,956 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation bonds	\$ 386,806	439,956
Revenue notes	<u>343,000</u>	<u>362,000</u>
Total	\$ <u>729,806</u>	<u>801,956</u>

Debt decreased as a result of the annual retirement of the general obligation bonds and revenue notes.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of \$386,806 is below its constitutional debt limit of \$1,002,319.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Gladbrook City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities.

The City will be considering a major capital project to replace its' existing water supply tower. The project will be dependent upon receiving a Community Development Block Grant for approximately one half of the funds needed. An application for the Community Development Block Grant is currently being prepared for submission. The balance of the funds needed for the project is expected to come from a combination of available reserves, a state revolving loan and usage rate adjustments. Another factor which could impact the City's financial position is the possibility that the EPA's Clean Water Act might require a substantial change to the treatment of the city's wastewater. The City's property tax base appears to be stable and may increase which should allow for little change to the current property tax levy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lori Bearden, City Clerk , at 319 2nd Street, Gladbrook, Iowa 50635.

CITY OF GLADBROOK

Statement of Activities and Net Assets-Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 165,539	38,486	36,665	-
Public works	108,031	-	98,333	1,620
Culture and recreation	46,052	1,813	10,182	-
Community and economic development	25,718	-	-	-
General government	51,588	1,860	-	-
Debt service	70,819	-	-	-
Total governmental activities	<u>467,747</u>	<u>42,159</u>	<u>145,180</u>	<u>1,620</u>
Business type activities:				
Water	78,314	98,336	-	-
Sewer	67,321	96,020	-	-
City center	128,922	129,689	2,563	-
Total business type activities	<u>274,557</u>	<u>324,045</u>	<u>2,563</u>	<u>-</u>
Total	<u>\$ 742,304</u>	<u>366,204</u>	<u>147,743</u>	<u>1,620</u>

General receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Franchise tax
 Unrestricted interest on investments
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Other purposes
 Unrestricted

Total cash basis net assets

Net (Disbursements) Receipts
and Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(90,388)	-	(90,388)
(8,078)	-	(8,078)
(34,057)	-	(34,057)
(25,718)	-	(25,718)
(49,728)	-	(49,728)
(70,819)	-	(70,819)
<u>(278,788)</u>	<u>-</u>	<u>(278,788)</u>
-	20,022	20,022
-	28,699	28,699
-	3,330	3,330
-	<u>52,051</u>	<u>52,051</u>
<u>(278,788)</u>	<u>52,051</u>	<u>(226,737)</u>
211,207	-	211,207
24,578	-	24,578
7,863	-	7,863
58,034	-	58,034
4,255	-	4,255
13,873	727	14,600
7,536	-	7,536
<u>(14,667)</u>	<u>14,667</u>	<u>-</u>
<u>312,679</u>	<u>15,394</u>	<u>328,073</u>
33,891	67,445	101,336
<u>553,918</u>	<u>204,503</u>	<u>758,421</u>
\$ <u>587,809</u>	<u>271,948</u>	<u>859,757</u>
\$ 64,140	-	64,140
600	30,290	30,890
37,521	-	37,521
<u>485,548</u>	<u>241,658</u>	<u>727,206</u>
\$ <u>587,809</u>	<u>271,948</u>	<u>859,757</u>

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2007

	General	Special Revenue Road Use Tax	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:					
Property tax	\$ 186,481	-	7,623	18,275	212,379
Tax increment financing	-	-	-	24,578	24,578
Other city tax	5,879	-	240	58,606	64,725
Intergovernmental	59,586	84,595	-	1,678	145,859
Licenses and permits	410	-	-	-	410
Charges for service	38,486	-	-	-	38,486
Use of money and property	13,488	-	-	385	13,873
Special assessments	-	1,620	-	-	1,620
Miscellaneous	10,477	190	-	3,708	14,375
Total receipts	314,807	86,405	7,863	107,230	516,305
Disbursements:					
Operating:					
Public safety	165,539	-	-	-	165,539
Public works	7,084	100,947	-	-	108,031
Culture and recreation	40,003	-	-	6,049	46,052
Community and economic development	25,718	-	-	-	25,718
General government	51,588	-	-	-	51,588
Debt service	-	-	70,819	-	70,819
Total disbursements	289,932	100,947	70,819	6,049	467,747
Excess (deficiency) of receipts over (under) disbursements	24,875	(14,542)	(62,956)	101,181	48,558
Other financing sources (uses):					
Operating transfers in	31,741	5,675	63,461	-	100,877
Operating transfers out	(14,667)	-	-	(100,877)	(115,544)
Total other financing sources (uses)	17,074	5,675	63,461	(100,877)	(14,667)
Net change in cash balances	41,949	(8,867)	505	304	33,891
Cash balances beginning of year	443,599	73,007	95	37,217	553,918
Cash balances end of year	\$ 485,548	64,140	600	37,521	587,809
Cash Basis Fund Balances					
Reserved for debt service	\$ -	-	600	-	600
Unreserved:					
General fund	485,548	-	-	-	485,548
Special revenue funds	-	64,140	-	19,368	83,508
Capital projects fund	-	-	-	18,153	18,153
Total cash basis fund balances	\$ 485,548	64,140	600	37,521	587,809

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2007

	Water	Sewer	City Center	Total
Operating receipts:				
Charges for service	\$ 98,336	94,020	129,689	322,045
Total operating receipts	98,336	94,020	129,689	322,045
Operating disbursements:				
Business type activities	78,314	37,461	128,922	244,697
Total operating disbursements	78,314	37,461	128,922	244,697
Excess of operating receipts over operating disbursements	20,022	56,559	767	77,348
Non-operating receipts (disbursements):				
Interest on investments	550	177	-	727
Land rent	-	2,000	-	2,000
Contributions	-	-	2,563	2,563
Debt service	-	(29,860)	-	(29,860)
Net non-operating receipts (disbursements)	550	(27,683)	2,563	(24,570)
Excess of receipts over disbursements	20,572	28,876	3,330	52,778
Operating transfers in	-	-	14,667	14,667
Net change in cash balances	20,572	28,876	17,997	67,445
Cash balances beginning of year	129,698	83,454	(8,649)	204,503
Cash balances end of year	\$ 150,270	112,330	9,348	271,948
Cash Basis Fund Balances				
Reserved for debt service	\$ -	30,290	-	30,290
Unreserved	150,270	82,040	9,348	241,658
Total cash basis fund balances	\$ 150,270	112,330	9,348	271,948

CITY OF GLADBROOK
Notes to Financial Statements
June 30, 2007

Note 1 – Summary of Significant Accounting Policies

The City of Gladbrook is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Gladbrook has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Gladbrook has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Solid Waste Disposal Commission, Tama County Joint E911 Service Board, Region Six Planning Commission and Tama County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system

The City Center accounts for the operation and maintenance of the City's movie theater and Matchstick Marvels museum.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The City of Gladbrook maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF GLADBROOK

Notes to Financial Statements (Continued)

June 30, 2007

Note 3 – Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$6,660, \$5,770 and \$5,694, respectively, equal to the required contributions for each year.

Note 4 – Notes Payable

Annual debt service requirements to maturity for general obligation notes and a sewer revenue capital loan note are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Capital Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 55,475	15,273	20,000	10,290	75,475	25,563
2009	57,748	12,878	21,000	9,690	78,748	22,568
2010	59,989	10,433	21,000	9,060	80,989	19,493
2011	62,094	7,736	22,000	8,430	84,094	16,166
2012	48,500	5,510	23,000	7,770	71,500	13,280
2013	50,500	3,575	23,000	7,080	73,500	10,655
2014	52,500	1,560	24,000	6,390	76,500	7,950
2015	-	-	25,000	5,670	25,000	5,670
2016	-	-	25,000	4,920	25,000	4,920
2017	-	-	26,000	4,170	26,000	4,170
2018	-	-	27,000	3,390	27,000	3,390
2019	-	-	28,000	2,580	28,000	2,580
2020	-	-	29,000	1,740	29,000	1,740
2021	-	-	29,000	870	29,000	870
Total	\$ 386,806	56,965	343,000	82,050	729,806	139,015

The sewer revenue capital loan note was issued for the purpose of defraying a portion of the costs of carrying out a sewer project of the City. The resolution providing for the issuance of the revenue note included the following provisions: (a) the note will only be redeemed from the future earnings of the enterprise activity fund and the note holders hold a lien on the future earnings of the fund, and (b) sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

CITY OF GLADBROOK

Notes to Financial Statements (Continued)

June 30, 2007

Note 5 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2007 was \$1,721, primarily relating to the General Fund. This liability has been computed based on rates of pay in effect at June 30, 2007.

Note 6 – Risk Management

The City of Gladbrook is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 38,883
	Tax Increment Financing	<u>24,578</u>
		63,461
General	Special Revenue:	
	Local Option Sales Tax	19,151
	Employee Benefits	7,424
	Emergency Fund	<u>5,166</u>
		31,741
Special Revenue:	Special Revenue:	
Road Use Tax	Employee Benefits	5,675
Proprietary:		
City Center	General	<u>14,667</u>
Total		<u>\$115,544</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
212,379	208,476	208,476	3,903
24,578	23,500	23,500	1,078
64,725	54,537	54,537	10,188
145,859	113,123	113,123	32,736
410	5,775	5,775	(5,365)
360,531	370,678	383,178	(22,647)
16,600	3,975	3,975	12,625
1,620	-	-	1,620
16,938	8,025	8,025	8,913
843,640	788,089	800,589	43,051
165,539	116,338	189,546	(24,007)
108,031	112,305	123,805	(15,774)
46,052	47,111	47,111	(1,059)
25,718	27,500	27,500	(1,782)
51,588	50,743	56,043	(4,455)
70,819	70,902	70,902	(83)
274,557	321,255	321,255	(46,698)
742,304	746,154	836,162	(93,858)
101,336	41,935	(35,573)	136,909
-	-	-	-
101,336	41,935	(35,573)	136,909
758,421	691,503	691,503	66,918
859,757	733,438	655,930	203,827

CITY OF GLADBROOK

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget and Actual (Cash Basis)

All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 212,379	-
Tax increment financing	24,578	-
Other city tax	64,725	-
Intergovernmental	145,859	-
Licenses and permits	410	-
Charges for service	38,486	322,045
Use of money and property	13,873	2,727
Special assessments	1,620	-
Miscellaneous	14,375	2,563
Total receipts	<u>516,305</u>	<u>327,335</u>
Disbursements:		
Public safety	165,539	-
Public works	108,031	-
Culture and recreation	46,052	-
Community and economic development	25,718	-
General government	51,588	-
Debt service	70,819	-
Business type activities	-	274,557
Total disbursements	<u>467,747</u>	<u>274,557</u>
Excess (deficiency) of receipts over (under) disbursements	48,558	52,778
Other financing sources, net	<u>(14,667)</u>	<u>14,667</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	33,891	67,445
Balance beginning of year	<u>553,918</u>	<u>204,503</u>
Balance end of year	<u>\$ 587,809</u>	<u>271,948</u>

Required Supplementary Information

CITY OF GLADBROOK

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$90,008. The budget amendment is reflected in the final budgeted amount.

Other Supplementary Information

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2007

	Special			
	Urban Renewal Tax Increment	Local Option Sales Tax	Employee Benefits	Emergency Services
Receipts:				
Property tax	\$ -	-	13,271	5,004
Tax increment financing	24,578	-	-	-
Other city tax	-	58,034	410	162
Intergovernmental	-	-	-	-
Use of money and property	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	24,578	58,034	13,681	5,166
Disbursements:				
Operating:				
Culture and recreation	-	-	-	-
Total disbursements	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	24,578	58,034	13,681	5,166
Other financing uses:				
Operating transfers out	(24,578)	(58,034)	(13,099)	(5,166)
Net change in cash balances	-	-	582	-
Cash balances beginning of year	-	-	-	-
Cash balances end of year	\$ -	-	582	-
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ -	-	582	-
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ -	-	582	-

Revenue				Capital Projects	
Library	Museum	Recreational Trust	Main Street Project		Total
-	-	-	-	-	18,275
-	-	-	-	-	24,578
-	-	-	-	-	58,606
1,678	-	-	-	-	1,678
385	-	-	-	-	385
1,813	-	1,895	-	-	3,708
3,876	-	1,895	-	-	107,230
3,861	-	2,188	-	-	6,049
3,861	-	2,188	-	-	6,049
15	-	(293)	-	-	101,181
-	-	-	-	-	(100,877)
15	-	(293)	-	-	304
12,235	2,064	4,765	18,153		37,217
12,250	2,064	4,472	18,153		37,521
12,250	2,064	4,472	-		19,368
-	-	-	18,153		18,153
12,250	2,064	4,472	18,153		37,521

CITY OF GLADBROOK
Schedule of Indebtedness
Year Ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Storm sewer improvement	Mar 15, 2001	5.25%	\$ 128,000
Corporate purpose	Aug 1, 2004	3.95%	413,643
Total			
Sewer revenue capital loan note:			
Sewer improvement	Sept 15, 2001	3.00%	\$ 706,000

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
72,956	-	13,150	59,806	3,650	-
367,000	-	40,000	327,000	14,019	-
439,956	-	53,150	386,806	17,669	-
362,000	-	19,000	343,000	10,860	-

CITY OF GLADBROOK

Bond and Note Maturities

June 30, 2007

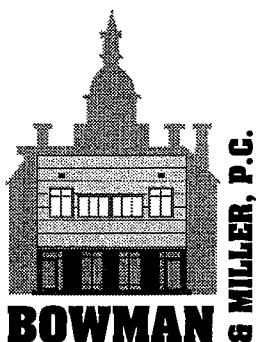
General Obligation Notes				
Year Ending June 30,	Storm Sewer Improvement Issued Mar 15, 2001		Corporate Purpose Issued August 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2008	5.25%	13,975	3.95%	41,500
2009	5.25%	14,748	3.95%	43,000
2010	5.25%	15,489	3.95%	44,500
2011	5.25%	15,594	3.95%	46,500
2012		-	3.95%	48,500
2013		-	3.95%	50,500
2014		-	3.95%	52,500
Total		\$ 59,806		327,000

Sewer Revenue Capital Loan Note Sewer Improvement Issued Sept 15, 2001			
Year Ending June 30,	Interest Rates	Amount	Total
2008	3.00%	20,000	75,475
2009	3.00%	21,000	78,748
2010	3.00%	21,000	80,989
2011	3.00%	22,000	84,094
2012	3.00%	23,000	71,500
2013	3.00%	23,000	73,500
2014	3.00%	24,000	76,500
2015	3.00%	25,000	25,000
2016	3.00%	25,000	25,000
2017	3.00%	26,000	26,000
2018	3.00%	27,000	27,000
2019	3.00%	28,000	28,000
2020	3.00%	29,000	29,000
2021	3.00%	29,000	29,000
Total		\$ 343,000	729,806

CITY OF GLADBROOK

Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Four Years

	<u>Years ended June 30,</u>			
	2007	2006	2005	2004
Receipts:				
Property tax	\$ 212,379	194,340	192,653	173,949
Tax increment financing	24,578	23,773	42,104	-
Other city tax	64,725	52,884	43,307	45,311
Intergovernmental	145,859	125,569	126,178	205,263
Licenses and permits	410	758	893	1,010
Charges for services	38,486	36,477	23,166	6,539
Use of money and property	13,873	11,503	6,957	17,104
Special assessments	1,620	-	15,127	-
Miscellaneous	14,375	13,784	26,523	55,149
Total	<u>\$ 516,305</u>	<u>459,088</u>	<u>476,908</u>	<u>504,325</u>
Disbursements:				
Operating:				
Public safety	\$ 165,539	109,181	88,359	146,763
Public works	108,031	97,212	99,973	100,335
Health and social services	-	-	-	260
Culture and recreation	46,052	41,642	56,019	44,434
Community and economic development	25,718	14,379	20,572	71,212
General government	51,588	51,783	56,019	73,800
Debt service	70,819	70,909	87,020	39,218
Capital projects	-	-	24,251	464,341
Total	<u>\$ 467,747</u>	<u>385,106</u>	<u>432,213</u>	<u>940,363</u>



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6366
4949 PLEASANT STREET • SUITE 206 • WEST DES MOINES, IOWA 50266 • 515-309-5461 • FAX 515-278-0287

James R. Bowman, CPA • jim@syscompia.com
Elizabeth A. Miller, CPA • beth@syscompia.com
Suzanne M. Mead, CPA • suzanne@syscompia.com

Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 10, 2007. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gladbrook's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Gladbrook's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gladbrook's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the City of Gladbrook's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Gladbrook's financial statements that is more than inconsequential will not be prevented or detected by the City of Gladbrook's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of financial statements will not be prevented or detected by the City of Gladbrook's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Gladbrook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operation for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Gladbrook's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Gladbrook's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Gladbrook and other parties to whom the City of Gladbrook may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Gladbrook during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 10, 2007

CITY OF GLADBROOK

Schedule of Findings Year Ended June 30, 2007

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF GLADBROOK
Schedule of Findings
Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-07 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting.
- (2) Disbursements - check writing, signing, and reconciling.
- (3) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties the City should utilize administrative personnel to provide additional internal control through review of financial transactions and reports.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

CITY OF GLADBROOK

Schedule of Findings Year Ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting:

- III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted.
- III-B-07 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.
- III-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-07 Business Transactions – No business transactions between the City and City officials or employees were noted.
- III-E-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-07 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-H-07 Revenue Notes – The City was in compliance with all applicable revenue note provisions.

CITY OF GLADBROOK

Staff

This audit was performed by:

Bowman and Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:

Elizabeth A. Miller, C.P.A.
Lori Stansberry, C.P.A.